

THE NATION'S FINANCIAL OUTLOOK

BY

A. B. THORNTON, F.S.I.

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P. S. KING & SON, LTD.

Orchard House, 2 & 4, Great Smith Street
WESTMINSTER

**THE NATION'S FINANCIAL
OUTLOOK**

First Published February, 1921

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1921

*The Publishers have been authorised to pay
any Profits due to the Author on the sale of this
Book to Earl Haig's Fund for Disabled Officers*

*"The verdict of history was that more great
nations had been injured or destroyed by finan-
cial embarrassments than even by naval or military
disaster."*

LORD HUGH CECIL, House of Commons.

10th December, 1920

PREFACE

THE object of this little book is to present to the Public a review of the present position of the Nation in regard to its Public Finances, and of the problems to be solved by the Authorities in control of these Finances, if the Country is to maintain its credit.

The work is non-political, and is not designed for the benefit or prejudice of any particular class.

An endeavour has been made to extract from a mass of information and conflicting opinions, the essential figures and conclusions resulting from a careful study of the whole subject, and to set them out in a readily intelligible form in their true perspective.

We are now realising that, far from our financial troubles having ended with the War, the Country is faced with a very critical position, and for the next decade

at least, our whole policy must be subjected to considerations of Finance.

A sound appreciation of our economic outlook by the General Public is therefore necessary, and if this book contributes anything to that end, my trouble will be well repaid.

My acknowledgments are due to the Authors of the Books and Writings quoted in the text, and my thanks should also be recorded to several friends who have kindly given me advice and assistance, among whom I might specially mention Mr. A. Warne Browne, F.C.I.S., Capt. Norman Cowell, M.C., F.S.I., and Mr. S. Bayliss Smith, A.C.A.

Any suggestions or criticisms from readers for incorporation in any future edition will be gratefully received.

A. B. T.

BROMLEY, KENT.

4th January, 1921.

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J. A. HOBSON, *Taxation in the New State*.
F. W. PETHICK LAWRENCE, *A Levy on Capital*.
SIR M. DE P. WEBB, *Britain Victorious*.
PROF. J. SHIELD NICHOLSON, M.A., *Inflation*.

INTRODUCTION

PUBLIC attention is being increasingly centred on the financial outlook of the Country, and on the ways and means by which the Nation is to raise its Revenue.

This is not surprising, as this question to-day affects more and more closely every inhabitant of the United Kingdom.

During the War we mobilised our Man-Power, our Industrial Power, our Foreign Securities, and our Cash Resources. **The Problem before the Nation to-day is to mobilise its Taxable Capacity, and so to spread the incidence of Taxation as to enable its Industries to compete successfully in Foreign Trade.**

If the Taxable Capacity of the Nation had been mobilised during the War, to the same extent as our other resources, the accumulation of vast war fortunes would not have been possible. It is a matter of economic self-preservation that

the problem should be tackled seriously without delay. A financial breakdown, and National prostration is the only alternative. As we have before us the lesson of some of the Continental Countries, there is no excuse for this Country failing to strain every nerve to right itself from its present unsatisfactory and dangerous financial position.

Are we to-day, as a Nation, directing every effort towards that end ?

The great achievements of the War were not obtained by the Government alone. It was only when the Country, as a whole, realised what was required that it put forth its maximum effort. It is equally vital, at the present time, for every citizen to realise the financial difficulties of the Country, the Taxation, and other sacrifices that these difficulties must inevitably bring, and in order that the main features of the financial problem may be available, an endeavour is made in the following Chapters to review the situation, in as simple a manner as possible.

The Press very properly devotes much attention to the financial outlook, but such articles are necessarily somewhat frag-

mentary ; the Author's object is to consolidate the available data, and to produce it in such a form as to enable the individual Taxpayer to bring his own judgment to bear on the questions at issue, and the prospects of the future. The earlier Chapters are mainly devoted to an examination of the facts, while in the later Chapters, some suggestions are submitted with a view to assisting in the solution of the main problem, as enunciated above.

**OUR NATIONAL DEBT AND
NATIONAL ASSETS**

THE NATION'S FINANCIAL OUTLOOK

CHAPTER I

OUR NATIONAL DEBT AND NATIONAL ASSETS

WHEN making his Budget speech of 1920, the Chancellor of the Exchequer gave the amount of the National Debt outstanding on March 31, 1920, as :—

	Millions £
External Debt (at par of exchange) . . .	1,278
Internal Debt	6,557
	<hr/>
Total Debt	£7,835

This total represented face value. If the bonus on Redemption of War Bonds

were reckoned, a further £46 millions would have to be added to this sum. On the other hand, Consols and other Loans could be redeemed in the market at a considerable discount on their face value, so that the total given may be accepted as a representative figure.

The Floating Debt was given at £1,312 millions.

The Chancellor then budgeted for a debt redemption during the year of £234 millions, which he apportioned as follows :—

	Millions £
Existing Sinking Funds	110
Provision for Sinking Funds on External Debt, etc.	50
	<hr/>
	160
Surplus—to act as a Sinking Fund to the Floating Debt	74
	<hr/>
	£234

According to an Official Return given in the House of Commons on December 9, 1920, the outstanding debt as at November 30, 1920, was approximately £7,735 millions, of which sum the Floating Debt accounted for £1,334 millions.

During the eight months, therefore (April to November), the Total Debt has been *reduced* by just £100 millions, while the Floating Debt has *increased* by £23 millions.

Examination of the Return shows that the increase in the Floating Debt is largely due to the repayment of the *External* Debt by some £116 millions.

Analysing this Total Debt we obtain—in round figures—the following important results :—

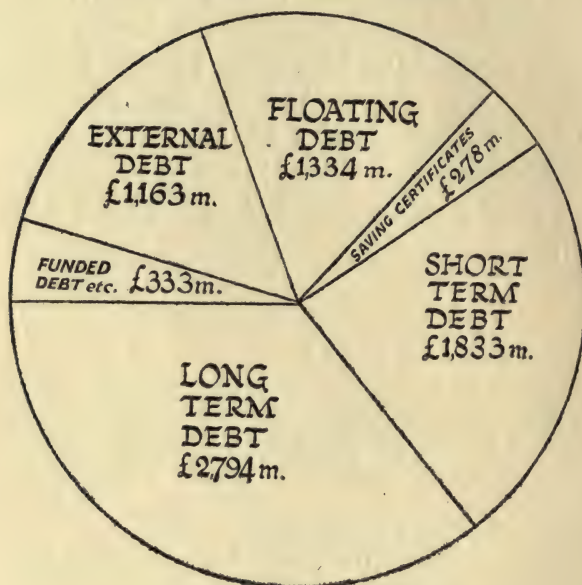
	Millions
<i>Funded and Long Term Debt :</i>	£
Funded Debt (Consols, etc.)	315
Terminable Annuities	18
War Loans, repayable 1942-7	2,030
Victory Loans, repayable 1960-90	764
	— 3,127
<i>Short Term and Floating Debt :</i>	
<i>Short term Debt</i> —(War Bonds, War Loans, Exchequer and Treasury Bonds, repayable within 10 years)	1,833
<i>Floating Debt</i> —Official Return	1,334
<i>Savings Certificates</i> , repayable on demand	278
<i>Other Debt</i> (i.e. External Debt, of which some £865 millions is due to the American Government)	1,163
	— £4,608
Total	£7,735

THE NATION'S

DIAGRAM "A"

THE NATIONAL DEBT

AT 30TH NOVEMBER, 1920



TOTAL £7,735 MILLIONS

Of the External Debt some £118 millions matures for payment abroad within the next five years. No definite arrangement has yet been made as regards the balance, which is short term debt, though negotiations with America are proceeding for funding her portion of this debt.

Within the next ten years, therefore, the Treasury will be faced with the Funding or Redemption of the present Floating and other Short Term Debt, amounting to some £4,600 millions, if, by 1930, the Country is to be in a sound financial position.

In arriving at this figure, however, no allowance has been made for Contingent Liabilities, comprising Guaranteed Loans (Irish Land, Transvaal, Turkish, Local Loans, etc.), totalling about £240 millions on March 31, 1920. At that date there were also certain other Capital Liabilities of the Government for Telegraph and Telephone Loans, etc., amounting to approximately £50 millions.

The American Debt which has been taken at the par of exchange amounted actually to 4,212 million Dollars, and at the rate of exchange on January 1, 1921, was equivalent to £1,205 millions.

Against this Debt must be set the Exchequer Assets. We can discard unsaleable assets, such as Government Buildings, Docks, Ships and necessary Stores and Balances to carry on the machinery of Government. But apart from such assets,

the Government possess some valuable securities, and certain credits are due to the Nation. A careful survey as at January 1, 1921, furnishes the following results:—

	Millions £
1. Suez Canal Shares	23
2. The Crown Lands—now vested in the State and producing £650,000 per annum. Say	12
3. Investments during and since the War in sundry Commercial Companies (Anglo- Persian Oil Co., etc.) say,	10
4. Balance of War Stores and other Vote of Credit assets, say	300
5. Balance of Civil Contingencies Fund, etc.	50
6. Outstanding obligation of India in respect of War Loan	21
7. Loans to the Dominions during the War	119
	<hr/>
Substantial Assets	535
8. Loans to Allies:—	
	Millions £
Russia	568
France	514
Italy	455
Belgium	97
Various	133
	<hr/>
9. Reparations from Germany* } say	500
10. Arrears of E. P. Duty	nil
11. Exchequer Balances	3
	<hr/>
Total	£1,038

* Of the Total Reparations to be received by the Allies, 22 per cent. is due to the British Empire.

The Author cannot share the optimism which places a higher valuation than £500 millions on the very speculative items 8 and 9; and the proceeds of item No. 10 are likely to be absorbed in claims for re-payment and in current expenditure before new taxation can yield a revenue in substitution.

The position as at January 1, 1921, may therefore be summarized thus:—

	Millions £
National Debt—Official Total	7,735
Other Capital Liabilities	50
	<hr/>
	7,785
Less Estimated Value of Assets	1,038
	<hr/>
Net Actual Debt	<u>£6,747</u>
Contingent Liabilities—Official	240
Contingent Extra Debt to U.S.A. on account of Exchange £1,205 — £865 =	340
	<hr/>
Contingent Liabilities	<u>£580</u>

THE EXCHEQUER REVENUE AND
EXPENDITURE

CHAPTER II

THE EXCHEQUER REVENUE AND EXPENDITURE

THE Budget Estimates for the year 1920-1921 provided for the largest Revenue ever raised by this Country. The Chancellor budgeted for a surplus of £234 millions for Debt Redemption, as shown in Chapter I. The Budget Estimates summarised were as follows :—

REVENUE		EXPENDITURE	
	Millions		Millions
<i>Tax Revenue :</i>	£	<i>Consolidated Fund</i>	
Customs and Ex-		<i>Services :</i>	
cise . . .	349		£ £
Income and Super		Debt Interest	345
Tax . . .	385	Local Taxa-	
Death Duties .	45	tion Acct.	11
Stamps . . .	25	Land Settle-	
E. P. Duty . .	220	ment, Roads,	
Corp. Profits Tax	3	etc. . .	20
Various . . .	8		— 376
	—	<i>Supply Services :</i>	
	1,035	Army, Navy	
<i>Non-Tax Revenue :</i>		and Air .	230
Post Office .	£53	Civil Ser-	
Loans and		vices . .	497
sundry Re-		Revenue De-	
ceipts . .	28	partments	11
Sale of War		Post Office .	50
Stores .	302	Supplemen-	
	— 383	tary Esti-	
		mates .	20
			—
			808
			—
		Total Expenditure	1,184
		<i>Sinking Funds</i>	
		and Debt Re-	
		demption .	234
			—
	£1,418		£1,418
	—		—

These figures are based upon the Treasury Return of April 19, 1920, to the House of Commons, and correspond—in round

amounts—with the figures usually quoted by the Press and Books of Reference.

On June 30, 1920, however, the Treasury issued another Return (Cmd. 802) explaining :—

(1) That these figures are the *Net Estimates* only.

(2) That Departmental Expenditure is met from two main sources ; viz. (a) Receipts appropriated-in-aid,* and (b) Supply Grants.

(3) That while both appropriations are authorised by Parliament, circumstances tended to concentrate attention mainly on supply grants, or the *Net Estimates*.

(4) That the *Gross Estimates* really represented the Total Cash placed by Parliament at the disposal of Departments.

The total estimated *Gross Expenditure* is shown to be £1,282 millions as against the *Net* figures usually quoted, as above, of £1,184 millions. The difference of £98 millions is accounted for as follows :—

* Appropriations-in-aid are intercepted Miscellaneous Government Receipts, and are fully explained in *National Finance* by Higgs (Methuen & Co.).

NET (OR BUDGET) ESTI- MATES		GROSS (OR ACTUAL) ESTIMATES	
	Millions £		Millions £
Fighting Services	230	Fighting Services	269
Civil Services . .	497	Civil Services . .	556
			<hr/>
			825
		Deduct Net Esti- mates	727
			<hr/>
	<hr/>	Difference	£98
	£727		

This method of accounting does not involve a reduction of the estimated surplus available for Debt redemption, but it should be borne in mind when considering the future cost of the Services, and the taxable capacity and resources of the Country.

The largest item, "Civil Services," also frequently misleads critics of Government Expenditure. It might more correctly be termed "Social Services," as the following main items show :—

	Net Estimate Millions £	Gross Estimate Millions £
War Pensions	123	123
Education	56	57
Old Age Pensions	25	25
Subsidies, Bread, Railways and Coal	87	87
Demobilisation and Re-settle- ment	25	26
Ministry of Health, Housing, Insurance, etc	34	43
Ministry of Shipping	16	21
Ministry of Munitions	27	65
Loans to Allies and Dominions	36	36
Various	68	73
	<hr/> £497	<hr/> £556

Of the £497 millions (Net Estimated Total) the Return shows that £341 millions is due to War-time Ministries and £155 millions is due to Pre-war Ministries.

The Revenue Departments and the Post Office, although comprising some two-thirds of the personnel of the Civil Service, come under a classification separate from that of the so-called "Civil Services" analysed above.

In the House of Commons on December 9, 1920, the Chancellor stated he anticipated that the Budget estimates of Revenue

would be realised, and that though supplementary estimates had to be presented to the House for some £60 millions of additional expenditure, he had effected economies resulting in a corresponding saving, and at the end of the financial year he hoped to have redeemed Debt to the extent of £200-£234 millions (inclusive of some £90 millions of Foreign Debt).

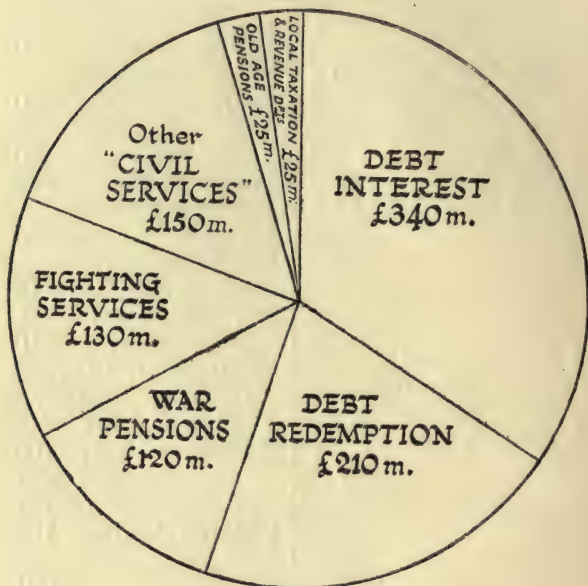
The Chancellor would not again venture to indicate a normal Budget for future years. This was not unnatural, but, aided by the Chancellor's Memorandum (Cmd. 779) issued in June, 1920, the Author ventures to speculate upon the probable position in April, 1922, when the Budget of 1922-1923 has to be framed. By that time the War Stores and War Ministries will probably all be liquidated, so that we may budget for an ordinary Revenue and Expenditure somewhat as follows:—

THE BUDGET OUTLOOK FOR 1922-23

REVENUE		EXPENDITURE	
	Millions £		Millions £
Customs and Ex- cise	350	Debt Interest . .	340
Income and Super Tax	385	Existing Sinking Funds	110
Death Duties . .	45		
Stamps	25	Debt Service . .	450
Various Receipts .	15	Pensions—War . .	120
	<hr/>	Pensions—Old Age	25
	820	Local Taxation Acct., etc. . .	15
		Revenue Depart- ments	10
E. P. Duty and Corporation Profits Tax, or <i>substituted Tax- ation</i>	180	Education, Health, Housing, and other "Civil Services"	150
			<hr/>
			770
		Fighting Services	130
			<hr/>
			900
		Surplus for Re- demption of Floating and External Debt	100
			<hr/>
	<hr/>		£1,000
Post Office . .	Contra.	Post Office . .	Contra.
	<hr/>		<hr/>

DIAGRAM " B "

ILLUSTRATING EXPENDITURE ON A BUDGET OF
£1,000 MILLIONS FOR 1922-23



Such a Budget pre-supposes a normal total taxable capacity of £1,000 millions per annum ; a balancing of Post Office Receipts and Payments ; the maintenance of our Revenue on its present scale ; the maintenance of other sundry receipts, enabling the appropriations-in-aid to be con-

tinued on their present scale ; and lastly upon very drastic economies in our Expenditure, such as £100 millions on the Fighting Services alone.

The surplus of £100 millions for Floating and External Debt redemption is suggested as a reasonable Sinking Fund for that Debt, if we are to deal with it by gradual repayment. The alternative courses of (1) a Capital Levy, or (2) leaving our debt to posterity, both find their supporters. The first is discussed in Chapter IX, and the latter the Author rejects, as only creating temporarily a fool's paradise.

We must not shut our eyes to the effects such drastic economies in National Expenditure, as are foreshadowed by such a Budget, will have upon Trade, and also upon the Revenue. This aspect is dealt with more fully in later chapters, as also is the question of the best method of raising the requisite Revenue of £1,000 millions.

OUR LOCAL FINANCES—AND THEIR
RELATION TO IMPERIAL FINANCE

CHAPTER III

OUR LOCAL FINANCES — AND THEIR RELATION TO IMPERIAL FINANCE

OUR Local Finance is becoming increasingly interwoven with our Imperial Finance. The old-time line of demarcation between Expenditure met by the Rates and Expenditure met by the Imperial Taxes has gone, and there is an increasing tendency for the Exchequer to assume the burden of Expenditure previously met out of Local resources.

It must be recognised that much of that Expenditure was National in character, and as a Nation we are less parochial than we were fifty years ago.

Unfortunately, the National Accounts have become unduly confused by this interweaving of finances, and no guiding principle governs the present National contributions to Local Taxation Accounts. The grants-in-aid, and contributions of

locally assigned revenue are apparently made merely as the result of a series of bargains between the Central Government on the one hand, and the Local Authorities on the other.

The results of the collected accounts of these Local Authorities—more than 2,500 in England and Wales alone—are, moreover, not so readily or quickly available as are the National Accounts. The movement in values, however, during the last two or three years has been considerable, and we must endeavour to summarise the present position from the data available, which is sufficient for our purposes.

Dealing first with the Debt of the Local Authorities of the United Kingdom, we find that this amounted to £655 millions on March 31, 1914.

There was no great change in the amount of this Debt, it is believed, until the Post-War Housing Schemes were put into operation. Even with the additional Debt incurred up to December 31, 1920, it is believed the total would not exceed £700 millions (of which some £600 millions may be attributed to England and Wales).

This Debt need not cause undue anxiety,

for, unlike the National Debt, it is mostly funded debt, and it is offset by various valuable Assets, such as Gas, Water and Electricity undertakings, Tramways, Harbours, Docks, Baths, Markets, Lands, etc., etc. These "undertakings" produced a Revenue for their Authorities of £50 millions in 1913, and on a Pre-war basis leading economists have estimated their value at over £1,000 millions.

The Revenue and Expenditure Account of the Local Authorities gives cause for more concern. The Balance of the Account has to be met annually by the Rates, and, while the power of the Authorities to add to their Loans is limited by the Central Government, there is no such limit to their annual expenditure.

The combined Revenue of the Local Authorities in the United Kingdom in 1913 was approximately as follows:—

	Millions £
Proceeds of Rates	82
Exchequer contribution	27
Revenue from "undertakings" (as above) .	50
Loans	24
Rents and Various	17
<hr/>	
Total	£200

Expenditure to correspond with this Total was incurred, by the Municipal Borough, County, Parish, Harbour, and other Authorities upon such Services as :— Main Roads, Police, Education, Poor Relief, Sanitation, Lighting, etc.

As a guide to the present dimensions of the Rates, we have an Official Report (Cmd. 1016) issued as recently as October, 1920, by the Ministry of Health, reviewing the increase of Rates for England and Wales, which, before the War, represented 83 per cent. of the total United Kingdom Rates.

That Report states that the amounts of the Local Rates, per pound of assessable value, have approximately doubled since 1914, and that the two main items of increase are “ wages and salaries ” and “ cost of materials.” The Report further states that the total Assessable Value on which rates are levied had risen by about 6 per cent. to approximately £225 millions.

From this we can estimate the present yield of the Rates for the United Kingdom at some £175 millions per annum (or for England and Wales only at £145 millions per annum). These figures are important as representing the Local contributions

of Ratepayers—who are also Taxpayers—to the upkeep of the Country.

This Revenue is obtained from the direct assessment on the Occupiers or Owners of Landed property, and, in England and Wales, represent an average of 13s. in the £ on the present assessable value, and in many districts the rates rise to over 20s., and even as high as 33s. for Pontypridd in Wales.

Now, while it must be admitted that many valuable services are maintained out of these rates, it is also obvious that a Taxable Capacity for the Country represented by $T + R$, cannot meet a demand for $T + 2R$.

As regards the prospects of relief, the Report above quoted states:—

“ Unless there is a considerable fall in the price of commodities . . . a great and widespread decrease in the amount of Local Rates (as distinguished from their amount per pound of assessable value) can hardly be expected.”

The words in parentheses have a significance in the light of the Minister's utterances in Parliament on the important subject of the re-assessment for rating purposes. A re-assessment is long overdue in many

30 NATION'S FINANCIAL OUTLOOK

parts of the Country ; the staleness of the assessments, especially in country districts, adds to the inequalities of the burdens of Taxation, and it is to be hoped that the relief which can be afforded to the Ratepayers in this direction, as a matter of administration, will now be quickly forthcoming.

An inquiry into the whole field of the relation between Local and Imperial Taxation is also due. It is stated that a Committee is being set up to inquire into the question of whether the State or the Local Authorities shall assume responsibility for the Hospitals—but there is scope for an inquiry far beyond this.

A reference to the finance of the Housing problem, in which both Central and Local Authorities are much interested, will be found in Chapter VIII.

OUR NATIONAL WEALTH

CHAPTER IV

OUR NATIONAL WEALTH

THIS Chapter is devoted to an analysis of our Taxable Capital Wealth ; our Taxable Income ; and the distribution of such Capital and Income among the classes of individual taxpayers.

Our National Wealth, briefly summarised, consists of :—

- | | | |
|---|---|--|
| 1. The Assets of the State. | { | Lands and Buildings,
Stores, Ships, Loans,
Investments, and
Cash Balances. |
| 2. The Assets of Local Authorities. | { | Lands and Buildings,
Municipal Undertakings, etc. |
| 3. The Assets of Public Institutions. | { | Churches, Hospitals,
Invested Funds of
Charities, etc. |
| 4. The Private Property of Individuals. | { | Lands, Buildings, Securities, Investments, Stocks and Shares, Goodwill, Cash, Personal and Movable Property. |

With Items 1, 2 and 3, we need not concern ourselves in this Chapter. Item 4 represents the taxable wealth of the Nation, as, if we tax the public and semi-public wealth, it is only taxing the individual taxpayer by a circuitous route.

What, then, is the present total value of the private wealth vested in the individual taxpayers of the United Kingdom ?

There are various authorities to guide us, of which the following two have been selected.

In his book *A Levy on Capital*, Mr. Pethick Lawrence, after examining various eminent authorities, gives an Estimate of £12,500 millions as the total of Pre-war Private Wealth. On the other hand, the Board of Inland Revenue for the purposes of their Memorandum on a War Levy, accepted the estimate of Sir J. C. Stamp of £11,000 millions, though, as they pointed out, they were more concerned with the *increase* during the War than the actual Pre-war figures. The Board, in their Memorandum (issued after a careful survey) estimated the increase of War Wealth vested in individuals at £4,000 millions as at 30 June, 1919.

We shall not be far wrong, therefore, if we assess the Pre-war total at £12,000 millions and the Post-war total (as at June 30, 1919) at £16,000 millions.

Since June, 1919, we have had prices and values rising for a period, followed by a reaction. Probably an estimate for June 30, 1919, would hold good for January 1, 1921.

Estimates which do not agree with the foregoing are frequently met with, but it must be remembered that such estimates often include the items (1, 2 and 3) which we have excluded.

Working from the above basis, and guided by the authorities above-mentioned—and others where necessary—we are able to arrive at (1) a classification of the forms of Wealth, making up the total of £16,000 millions, and (2) a classification of individuals among whom such Wealth is distributed. Tables showing these results follow :—

TABLE I

CLASSIFICATION OF FORMS OF WEALTH HELD BY
PRIVATE INDIVIDUALS (UNITED KINGDOM)

Class of Property.	Schedule.	Gross Income Tax Assess- ments, 1917-18.	Approximate Capital Value.
		Millions. £	Millions. £
<i>Income Producing Property :</i>			
Lands, Buildings and other Profits	A	288	4,000
Farmers' Capital	B	51	650
(a) British Securities— privately held	C	77	(a) 1,000
(b) Foreign and Colonial Securities — pri- vately held			(b) 500
(a) Railways, Mines, Iron- works, Gasworks, Waterworks, Docks, etc.	D	1,285	(a) 1,700
(b) Businesses, not other- wise detailed			(b) 5,000
(c) Professions and Em- ployments			(c) nil
Salaries — Government and Public Companies, etc..	E	266	nil
Property owned by persons exempt from Income Tax, and evasions	—	nil	250
<i>Non-income Producing Pro- perty :</i>			
Movable Property and Personal Effects.	—	—	1,200
Building Sites, Vacant Land, Woodlands and Values not assessed to Schedule A	—	—	400
Life Insurance Policies	—	—	500
Savings Certificates	—	—	275
Private Banking Account Balances and Savings Banks' Deposits.	—	—	500
Cash in hand	—	—	25
		£1,967	£16,000

NOTE.—The above Estimates are based upon Cmd. 594, p. 16 (War Levy), Sir J. C. Stamp's Estimate, Cmd. 502, and other information.

TABLE II

CLASSIFICATION OF INDIVIDUALS IN RANGES OF
CAPITAL WEALTH (UNITED KINGDOM)

Number of Individuals.	Ranges of Capital Wealth.		Total Wealth in Millions.
	Exceeding	Not exceeding	
	£	£	£
280	1,000,000	—	600
800	500,000	1,000,000	550
3,000	250,000	500,000	1,000
10,000	100,000	250,000	1,650
18,000	50,000	100,000	1,450
43,000	25,000	50,000	1,750
122,000	10,000	25,000	2,250
148,000	5,000	10,000	1,250
345,080			10,500
700,000	1,000	5,000	1,500
1,045,080			12,000
Remaining popu- lation	—	1,000	4,000
Total estimated Wealth			16,000

NOTE.—The above Estimates are based upon Tables given in Cmd. 594 p. 18 (War Levy), Cmd. 502 p. 5 (Bd. of I.R. Rep. 1919), and other information.

A study of Table II discloses the fact that approximately 65 per cent. of the total Wealth is vested in the hands of some

345,000 individuals, or 75 per cent. of the population (46·2 millions).

Proceeding now to examine the total Income of private individuals, we find the following guides :—

Various authorities (as set out in Sir J. C. Stamp's book) estimated the Pre-war National Income at a figure averaging £2,000 millions.

Mr. Edgar Crammond, a leading economist, puts it as high as £2,400 millions, and estimates our Post-war Income at £4,400 millions. Mr. Crammond appears to be high by comparison with other authorities, but obviously our National Income must have risen greatly during the War, owing to the inflation of our currency and the higher rate of interest obtainable. His totals may, however, include State and other Public Income.

The Gross Income reviewed by the Commissioners of Income Tax has been returned at :—

Year	Gross Income reviewed Millions
1913-1914	£1,167
1917-1918	1,967
	<hr/>
	Increase £800

Of this increase of £800 millions, some £340 millions is due to the fact that in 1915 the Income Tax exemption limit was lowered from £160 to £130.

It must be recognised that the figure of £1,967 millions does not cover the majority of the "wage-earning class," nor does it cover evasion, and undoubtedly there has been a further increase since 1917-1918. But, on the other hand, it appears reasonable to suppose that a reaction may be due in 1921.

In 1919 the Board of Inland Revenue issued a carefully prepared Estimate (Cmd. 224) showing the distribution of Incomes based on the 1918-1919 Returns, and the figures given in the following Table are extracted therefrom.

TABLE III

INCOME TAX AND SUPER TAX PAYERS IN THE
UNITED KINGDOM

Persons.	Income.	Total Income (in Millions).
		£
148	Exceeding £100,000	27·6
392	£50,000—£100,000	26·7
8,051	£10,000— £50,000	144·7
13,974	£5,000— £10,000	95·1
65,435	£2,000— £5,000	187·2
136,600	£1,000— £2,000	187
276,400	£500— £1,000	191·6
1,245,000	£200— £500	354·6
3,600,000	£130— £200	530·5
5,346,000*	Other Income—not divided —mostly retained by Companies	1,745
		225
		£1,970

* 1,940,000 persons of this total were entirely relieved by abatements.

A review of the various authorities suggests the following as an estimate of our approximate total Private Income for 1921.

Class.	Persons (Millions).	Total Depend- ants (Millions).	Income (Millions).
1. Income Tax Paying Class .	5.3	15	£ 2,000
2. Wage-earners and Incomes not reviewed by Inland Revenue	15	30	1,700
3. Paupers and Unemployed .	—	1.2	—
Totals	20.3	46.2	£3,700

The estimate for Class 2 above is conjectural, but for the purposes of this book it is not of essential importance. Be the Income more or less than the £1,700 millions allowed, it obviously does not comprise much Taxable Capacity.

OUR TAXING SYSTEM

CHAPTER V

OUR TAXING SYSTEM

WITHIN the limits of a single Chapter it is only possible briefly to review our Taxing System and examine its possibilities in view of the urgent need of a maximum Revenue.

Until recent years, it was an axiom of British finance that the yield of direct and indirect Taxation should be approximately equal. But this view is no longer held, and present-day economists are increasingly favouring direct Taxation.

While direct Taxation is not popular, it is more effective in controlling Public Expenditure; it is less wasteful; its incidence can be more accurately directed; and it can be graded with greater equity to the relief of the lowest classes of incomes.

The chief objection to direct Taxation is that it is most difficult to prevent a

certain amount of inequality and evasion, and it has greater administrative difficulties.

Our present indirect Taxation consists principally of Customs and Excise Duties, which produce approximately £350 millions per annum, and it is difficult to see how they can produce more. Liquor contributes £208 millions to this total, Tobacco £62½ millions, Tea, Sugar, Coffee and Cocoa £52 millions, and the balance is raised by the taxes on Entertainments, Motors, etc.

Extra taxes upon necessities, such as Tea and Sugar, will only start again the chase of Wages after a Cost-of-living Scale. Extra taxes on luxuries, such as Tobacco and Liquor, must, with a lessening purchasing power, decrease consumption, and so fail to produce more Revenue.

Taxes on Industry, such as Excess Profits Duty, are largely passed on to the consumer, and they hamper Trade. Their shifting incidence must cause continuous agitation.

With regard to E.P.D., which has been so generally condemned as a Tax, it should be recognized that this duty was instituted under abnormal conditions; and by its nature it is a "Share" of abnormal profits

rather than a normal tax. Undoubtedly it has outlived its mission as an instrument of taxation.

The mainstay of our Taxation System is unquestionably our Income Tax and Super Tax, the latter being only a steeper graduation of the more universal Income Tax.

In its present form, Income Tax is the outcome of more than a century's growth, and after an exhaustive inquiry, the recent Royal Commission on the Income Tax—although making many recommendations for the revision of details—advised against any fundamental change in the nature of the Tax, which the Commission considered had proved its worth in times of stress (Cmd. 615).

The recommendations of the Commission which have received effect by the Finance Act, 1920, have removed most of the inequalities, though not all: the income from "wasting assets," for instance, bears an undue burden, while "casual profits" go free.

The yield of these combined taxes has been increasingly satisfactory during the War, and they are expected in the present

year to produce one-third of our total Tax Revenue.

Next in importance come the Death Duties, estimated to yield £45 millions in the current year. This is another form of direct Taxation, and may be described as a complementary form of Income Tax, trapping, at death, those surplus elements of Taxable Capacity which have escaped the annual Income Tax. Although the scale of the Estate Duty (the principal Death Duty tax) was fairly drastically revised by Mr. Chamberlain in his 1919 Budget, the increased Revenue was only estimated at some £10 millions per annum. For the present year the Estate Duty is estimated to produce some £40 millions, and the Legacy and Succession Duties some £5 millions.

As we have seen in Chapter IV, there is a total Capital Wealth of £16,000 millions, susceptible to this Tax, or, if we exclude the smallest estates, there are fully £15,000 millions ranking for Estate Duty. Dividing this by the generally accepted figure of 30, to find the amount passing each year, we arrive at a figure of £500 millions as the amount annually

susceptible to Tax. Allowing 10 per cent. for evasion, we find the Death Duties equal 10 per cent. of the balance.

Now, if we are to abandon E.P.D. and avoid new indirect taxes, new taxes on Industry, and fancy taxes, as well as a Capital Levy, from what field of our Taxing System is there better scope for an increased Revenue than from the Death Duties ?

If the Capital of the Taxpayer is to avoid a Levy during lifetime, it will have to be subjected to very heavy pruning at death.

It is in no spirit of hostility to Capital that this suggestion is put forward. The Author has carefully studied the Chancellor's speech in his 1919 Budget (an extract from which is reproduced in Chapter IX), but he fails to find any satisfactory alternative for meeting the deficit which will follow a repeal of the E.P.D.

With any revision of the Death Duties, it is suggested that we might give greater recognition to the degree of dependence of the Legatee upon the Deceased, and to the circumstances of the inheritor of the wealth, rather than to the circumstances of the Deceased. The age of children should also be recognised, and a lower

Duty levied in cases where the children of the Deceased are still minors. A revision of our Legacy and Succession Duties on the lines of the Scale suggested in the Appendix would yield a considerably increased Revenue from those individuals best able to contribute it.

The Corporation Profits Tax, which is estimated to produce in the year 1920-1921 an insignificant amount of £3 millions, is an untried Tax.

This Tax was introduced in the Budget of 1920, by the Chancellor as a possible future substitute for E.P.D., and was described by him as a "Corporation Tax" levied at the rate of 1s. in the £ on the Profits and Income of *concerns with limited liability engaged in Trade or similar transactions*. As the burden of the Tax must fall on ordinary shareholders, a limit was introduced to prevent the Duty exceeding 2s. in the £ on the ordinary-share capital of the concern.

The Chancellor justified the Tax on the grounds that limited liability Companies enjoyed special privileges and conveniences by law, and that the Tax would also help to remove the existing anomaly by which

partners in a private concern paid Super-Tax on undivided as well as divided profits, while partners in a limited liability concern did not do so.

There is unquestionably considerable force behind the Chancellor's arguments, but without grave injustices arising there is no scope for a heavier rate of tax than that at present existing.

On the basis of the existing rate of profits and development, the Chancellor estimated the yield of this Tax, in a full year, with E.P.D. repealed, at £50 millions per annum.

The only other serious items of Taxation we can refer to are the Stamp Duties (£25 millions per annum), and the Inhabited House Duty (£2 millions per annum). The former Duties have the great merits of simplicity, certainty, and freedom from evasion, but without interfering with the free flow of Industry and Commerce they cannot produce a substantially greater Revenue—at any rate not a Revenue that will meet our anticipated needs.

On the other hand, the Inhabited House Duty, which is in the nature of a supplementary Income Tax, and not easily evaded,

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might be revised to yield considerably more than the present trifling £2 millions per annum, but with any increase of tax must go a re-assessment of the values (Gross Annual Value—Sch. A.) upon which the Tax is levied, *vide* the Report of the Royal Commission on Income Tax, page 98.

THE TAXABLE CAPACITY OF
THE NATION

CHAPTER VI

THE TAXABLE CAPACITY OF THE NATION

THE question of what is the Taxable Capacity of the United Kingdom is beginning to excite considerable interest, for it is evident that such Taxable Capacity will have to be raided to the hilt, if the Country is to pay its way.

Various authoritative estimates have been given, generally ranging in amount from the figure of £910 millions per annum, supported as a maximum by the Association of British Chambers of Commerce, to the round figure of £1,000 millions per annum, which it is understood is considered by Mr. McKenna and other authorities to be the limit.

These figures, no doubt, represent estimates of Capacity for Imperial Taxes on the assumption that such Capacity is not

unduly encroached upon by the demands of the Local Authorities. Whether they exclude the Post Office Revenue is not quite so clear, but presumably they do.

We may proceed to examine the position on the same basis, though the reader should bear in mind the observations on this point in Chapter III on Local Finance.

It is evident that the Taxable Capacity of the Country must depend largely upon its trade prosperity. We can only assume an average prosperity, but we may hope with some reason that if we can lighten the burden of Taxation upon Industry, we may be assisting that prosperity.

Industrial and commercial circles are unanimously demanding the entire repeal of the E.P.D. and Corporation Profits Tax, and that no Taxes on Industry should be substituted for them. This would entail, on the basis of the 1920-1921 Budget, an apparent loss of Revenue of £225 millions. If, however, the Chancellor swept away these Taxes, there would, on the same profits, be another £225 millions to rank for Income Tax and Super-Tax; and, as it is claimed that those Taxes encourage great waste and discourage trade, we might reasonably

assume that the extra profits to rank of Income Tax would be £250 millions per annum, provided, of course, that trade maintained the same prosperity that produced the £225 millions.

This is a class of Income which would probably pay Income Tax at the full—or nearly full—rate, and doubtless some Super-Tax as well.

If we take the effective rate of the two Taxes at 8s. in the £ on the extra £250 millions, we obtain an extra Revenue of £100 millions to set off against the loss of E.P.D., which Industry clearly cannot continue to bear.

It may be that this estimate is an optimistic one, but if we assume the retention of the Corporation Profits Tax, and the repeal of the E.P.D. we may safely count on a revenue of £100 millions in place of the £225 millions in the present Budget.

What further Taxable Capacity have we beyond this extra £100 millions? All the various suggestions that have been made, such as Sales Tax, Luxury Tax, Advertisement Tax, etc., are only other forms of indirect or unsatisfactory Taxation, starting the vicious circle of rising

prices over again. Taxable Capacity, the Author suggests, cannot be measured by such Schemes. The ordinary Income Tax stands at a pitch which practically exhausts the Taxable Capacity of the middle classes. The Super-Tax might perhaps be graded more steeply on the higher incomes, but any drastic revision must tend to drive capital abroad.

Falling back, therefore, upon the suggestion contained in the last Chapter in regard to Death Duties, it is submitted that these Duties could be remodelled to produce a Revenue of £100 millions, or rather more than twice their present amount. An average duty of 20% on the value passing on death annually should not be an unbearable burden. The £100 millions per annum should thus be obtainable, especially with a tightening up of the machinery to obviate the evasion of Duty on movable personal property.

A Labour Government would probably increase these Duties far beyond the suggestion now made, as the Labour Party maintain that a tax on Inheritance is one of the fairest forms of Taxation.

If this Revenue, which is really a slice

of Capital, were specially earmarked for the redemption of Debt, Taxpayers might be partially reconciled to the increased Duties.

With direct Taxation at this pitch, the Author suggests the limits of Taxable Capacity would have been reached, though there will always be scope—and necessity—for minor adjustments.

Our estimate of the Nation's Maximum Taxable Capacity will thus stand as follows:—

	Millions £
<i>Existing Revenue :</i>	
Customs and Excise, Income Tax, Death Duties, Stamps and various, as per Budget given in Chapter II	820
<i>New Revenue :</i>	
C.P. Tax, and extra Income and Super-Tax, due to repeal of E.P.D. . . .	100
Extra Death Duties	55
Revised I.H. Duty and Super-Tax . .	25
Maximum Taxable Capacity, <i>excluding</i> Post Office Revenue	£1,000

It will be observed that we arrive at a total of £1,000 millions, exclusive of the Post Office Revenue (=£50 millions p.a.). It is important to bear this in mind, because,

look at our expenditure how we will, it is impossible to see how it can be reduced below £1,000 millions, *inclusive* of Sinking Funds, but *exclusive* of Post Office Expenditure, for several years to come.

For the purposes of an estimate of Taxable Capacity the Post Office should be regarded neither as an instrument of taxation, nor as a subsidised service, though it may be remembered that it provides great services for other State Departments free of charge.

Let us look, for a moment, at this question of Taxable Capacity from another angle.

Before the War, on an Income of some £2,000 millions we contrived to find £200 millions in Taxes, £80 millions in Rates, and to save on an average—according to Sir George Paish's estimate—£350 millions ; this gives a total of £630 millions per annum, or 31·5 per cent. of our Income. If we take the same percentage of our present Income of £3,700 millions, we obtain a figure of £1,165 millions, and deducting our present Rates (£175 millions) we are left with a balance of £990 millions, which we may say represents our utmost taxable capacity.

As shown in previous Chapters, our estimate of £3,700 millions of Taxable Income is not unduly low : many authorities would put it higher. But it has to be maintained, and with heavy Taxation, *which absorbs all private savings for the State*, it is probably a very fair figure on which to base an estimate of Taxable Capacity.

We have therefore good reasons for estimating our maximum Taxable Capacity at £975 millions—£1,000 millions, but we must regard the latter amount as an outside figure, obtainable only under favourable conditions of Trade.

A TAXING POLICY

CHAPTER VII

A TAXING POLICY

HAVE we, as a Nation, a well-defined Taxing Policy, and an equitable method of raising our huge Revenue? It seems not; we rely too much upon the line of least resistance.

If we could obviate all evasion and inequalities of assessment we could not do better than rely upon the Single-Tax principle in the form of a properly graded Income and Super-Tax, but this ideal is impracticable.

We have, however, now perfected these Taxes to the extent that we might well rely upon them for *one-half* of our total Taxation. For another quarter of our Revenue we might rely upon our two main luxuries—Liquor and Tobacco—patronised by all classes, and the remaining quarter of our Revenue we might raise from Taxes

designed to equalise and adjust the total burden to all classes.

Based upon the assumption, therefore, that we must raise £1,000 millions per annum (exclusive of Post Office Revenue and Receipts appropriated-in-aid), this suggested apportionment of taxation is illustrated by Diagram "C" (see p. 67).

It will be noted that E.P.D. is excluded, but Corporation Profits Tax is retained to produce the Chancellor's estimate of £50 millions on its present scale, with E.P.D. repealed. As stated in Chapter V, there are sound arguments for the retention of this Duty.

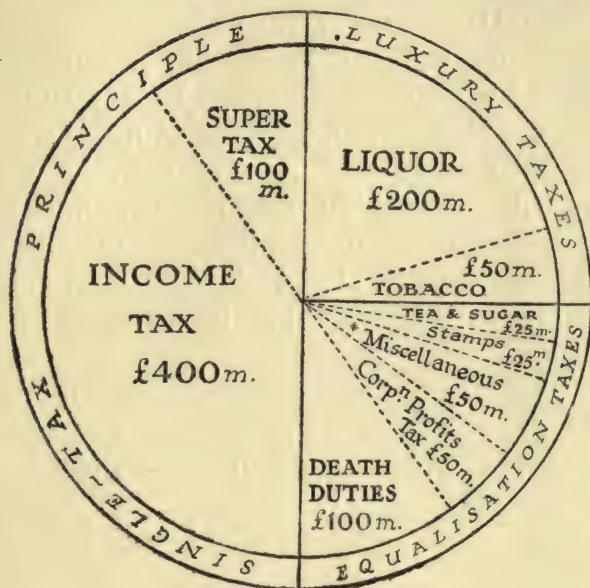
To give effect to such a Scheme the yield of Income Tax and Super-Tax will probably have to be raised, even with E.P.D. repealed, and it is suggested that the *unearned* income of the super-tax-paying classes provides the remaining tax-paying capacity.

The Liquor and Tobacco taxes produce at present £270 millions against the £250 millions allowed for, but with a falling purchasing power, the difference may be swallowed up, and the present duties would be retained or only slightly modified.

The present taxes on Tea and Sugar

DIAGRAM "C"

ILLUSTRATING SUGGESTED APPORTIONMENT OF
TAXATION ON A BUDGET OF £1,000 MILLIONS.



* MISCELLANEOUS.

	Millions.
	£
Motor Tax	10
Entertainments Tax	10
Sundry Customs and Excise	10
Inhabited House Duty	10
Various Receipts	10
Total	£50

would be halved with the object of reducing the cost of living to the masses. The

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consumption of these necessities is no proof of Taxable Capacity. There is a strong case for their total repeal.

The Death Duties should be levied, two-thirds by means of Estate Duty, and one-third by means of a revised Legacy Duty, on the lines set out in the Appendix.

The present new tax on Motors is estimated to yield £9 millions per annum against £10 millions allowed. Inhabited House Duty has already been referred to in Chapter V. The other items speak for themselves.

A more equitable apportionment of the burden of Taxation than the one suggested in this Chapter may well be possible, but it is urged that, in any case, the Nation needs a more defined Policy in this connection.

THE SPECIAL PROBLEMS OF
IRELAND, HOUSING, AND THE
RAILWAYS

CHAPTER VIII

THE SPECIAL PROBLEMS OF IRELAND, HOUSING, AND THE RAILWAYS

THIS Chapter is devoted to three prominent problems of the day.

IRELAND

Irish Home Rule involves Irish control of a portion of the existing National Revenue. A limited control is given by the Government of Ireland Act, 1920, but complete fiscal autonomy will doubtless be pressed for when the Irish Parliaments are working. We are merely concerned here with the figures involved.

Under the above Act, the Irish Parliaments are to have full control over Taxation, *except* in regard to Customs and Excise, E.P.D., Corporation Profits Tax, and Income and Super-Tax. But they cannot levy a Capital Tax or a Surtax on Income.

Out of the Revenue raised by Ireland from these sources, a sum of £18 millions is to be contributed to Imperial Liabilities and Expenditure, and the balance will then be placed at the disposal of the Irish Parliaments.

A Joint Exchequer Board is to be set up, and after the first two years this Board will revise the total amount of the contribution to Imperial Revenue, and also the proportion in which North and South Ireland shall contribute. Initially, the proportion is fixed at 44 per cent. and 56 per cent. respectively.

There are minor financial provisions, but the above is the main outline.

There is no provision for any partition of the National Debt. Presumably, however, this would go with a grant of fiscal autonomy.

Economists have always found Irish finance a difficult problem, but a recent Treasury Return (245) enables us to gauge approximately the effect of the new Act upon our National finance.

In 1919-1920 Ireland contributed £50 millions to the Imperial Exchequer, and £46 millions of this total was from those

taxes, the control of which is to remain with the Imperial Treasury. On the other hand, special expenditure on Irish services amounted to £29 millions for the year.

The following figures of Revenue and Local Expenditure are taken from the Return quoted:—

	Total U.K. Millions £	Ireland Millions £
Contributed Revenue. . . .	1,043	50
Local Expenditure	267	29
	<hr/>	<hr/>
Net contribution	£776	£21

Ireland therefore contributed only 2·76 per cent. of the net amount available for Imperial purposes (her Taxable Income is generally reckoned to be a little over 3 per cent. of the U.K. total).

The probable net result of the financial provisions of the Act of 1920, as affecting the Imperial Exchequer, appears to be that some £4 millions will cease to be collected into the Imperial Treasury, and that while the direct Treasury expenditure will be reduced by some £29 millions, the balance of revenue from the controlled Taxes to be paid over to Ireland (i.e. £46 less £18 millions) will approximately equal this amount.

Unless, therefore, there is a grant of complete fiscal autonomy to Ireland, the National Budget totals will not be greatly disturbed.

HOUSING

The Housing Programme of the Government will throw a heavy burden upon the Exchequer.

The main outlay will be under Schemes, by which Local Authorities erect the houses subject to the supervision and control of the Ministry of Health. The principle underlying these Schemes provides for a maximum contribution by the ratepayers of the district concerned of an amount equal to a penny rate in the £ on the Ratable Value, towards the loss involved, the balance being borne by the Exchequer. It is generally recognised that the total loss will be a heavy one, but no estimates have apparently been published of the ultimate cost, and how it may be apportioned. There is, however, sufficient official information available to enable an intelligent deduction to be made of the total cost to be borne by either Ratepayers or Taxpayers, and, as is shown in Chapter

III on Local Finances, it is not very material from the point of view of the taxpayer, whether it is charged directly to him via the Central Government, or via the medium of the Rates.

The original programme of the Government contemplated the erection of some 500,000 houses. It is commonly understood that this programme will be curtailed, but up to August 28, 1920, tenders had been approved by the Ministry of Health for the erection of 140,000 houses, and plans had been submitted to them for approval for a further 110,000, or 250,000 houses in all (Cmd. 979). All but 8,000 of these (for which the Public Utility Societies were responsible) were submitted by Local Authorities. It is a reasonable assumption, therefore, that some 300,000 houses will be ultimately erected by these bodies.

What the annual loss will be on these houses has been the subject of considerable speculation, but the December number of *Housing* (issued by the Ministry of Health) contains an estimate of the annual deficit in respect of 29,000 cottage dwellings to be erected by the London County Council

as approximately £1,050,000—or nearly £40 per house per annum.

At Roehampton, on another of its schemes, the Council anticipate a loss of £90 per house per annum, and many other local bodies expect a loss of £50 per house.

On the basis of 300,000 houses, and an average loss of £50, the deficit to be met will therefore be approximately £15 millions annually.

The Government are also subsidising private builders for houses completed before December, 1921. Plans for some 26,000 houses have already been previously approved under this Scheme, the subsidy being £260 per house. Assuming that the builders of these 26,000 houses eventually earn the subsidy, the total cost will be £6 $\frac{3}{4}$ millions. In respect of these houses, however, the Government will be rid of further liability.

The Office of Works is also engaged in building houses and other housing work, estimated to cost £6 millions within the current 18 months.

Up to March 31, 1921, provision has been made by Parliamentary Votes for some £16 millions to the Ministry of Health,

with a further £9 millions for building materials, and also the sum mentioned above of £6 millions to the Office of Works. The total provision to the above date appears, therefore, to be about £31 millions.

The capital outlay is being raised either by the Local Authorities themselves, or with the assistance of the Public Loan Office.

By the Chancellor's Memorandum (Cmd. 779) an amount of £15 millions per annum is allowed as the normal future grant for Housing, and it would appear from the above data that this sum will be easily absorbed.

THE RAILWAYS

When the Government took over the Railways on the outbreak of War, it entered into agreements with the Railway Companies, and in return for the control it assumed it gave guarantees as to the maintenance of the Railways' Net Profits, which amounted to some £47 millions per annum. During the War, this control undoubtedly saved the Government large sums, but to-day the Exchequer is having to provide subsidies by which the Companies' Net Profits and

Dividends can be maintained, and, moreover, the Companies are presenting large claims for arrears of maintenance, which they state are accumulations of the War period.

The subsidy to the Railway Companies was estimated to cost in the current year approximately £24·5 millions ; but for the eight months ending November 30, 1920, the net Government liability was already a million in excess of this figure, and for the full year ending March, 1921, the loss is not likely to be less than £40 millions.

The Government's control of the Railways terminates in August, 1921, when its liability as regards subsidies cease, but, under the original agreement the railways have to be returned in the same financial position as regards earning power as they were before the War.

The Government's liability for maintenance, etc., under the agreement is a very speculative item, but it was stated by the Chancellor, in his speech in the House on December 9, 1920, that it might amount to as much as £150 millions. He foreshadowed, however, a reduction in this total, by the decisions of Lord Colwyn's Committee, now sitting, and by the efforts

of the Ministry of Transport, who watch the State interests in the matter.

The claims must, however, remain a very substantial liability on the Exchequer, until completely disposed of.

A CAPITAL LEVY

CHAPTER IX

A CAPITAL LEVY

WHILE a Levy on Capital has been definitely rejected by the present Government, the proposal still finds support with a considerable body of public opinion, and its future possibilities should therefore be examined with an open mind.

Admittedly a Levy on War Wealth is now out of the question.

Writing, as an expert in Taxation, a series of articles for the *Financial Times*, Mr. R. W. Needham stated as lately as October 12, 1920 :—

“The position that we have now reached is this : It is beyond argument that the State must continue to raise a huge Revenue (opinions vary only as to the number of millions), and there can be no doubt that another year’s unimaginative treatment of the problem of raising that huge revenue would bring us face to face with the question of a levy, not merely on increment of war wealth, but on all wealth ; in a word, a capital levy.

“And this predicament would arise out of the financial position itself, quite apart from any political movement that might be in operation against capital.”

The arguments for a Capital Levy are ably set out by Mr. Pethick Lawrence in his book *A Levy on Capital*, and by Mr. J. A. Hobson in his book *Taxation in the New State*.

On the other hand we have the Chancellor of the Exchequer in his Budget Speech of 1919, summarising the arguments against such a Levy, in the following words:—

“Consider a levy on capital apart from the circumstances of the moment. The death duties make such a levy, and they make it once in a lifetime, at a time when the taxpayer receives an accession of income, and since they are levied only at death, and we do not all die at the same time, the process of making the valuation and of levying the tax is a task of manageable proportions. It can be done justly and fairly as between man and man, and it can be done with a minimum of evasion or of fraud. Since only a portion of the capital of the country is dealt with in any one year, the tax is paid without any disturbance of credit, and without any depreciation of securities to the detriment either of the State itself or of the home. If a levy was to be made on all the capital of the country at one and the same time by the tax collector, all these advantages would be lost. To make an efficient valuation, fair as between man and man, and fair as between the Revenue and the State, would exceed the power of any Revenue administration in the world, and I make bold to say that our own is the best. . . .

I say boldly that whatever be our views on the distribution of wealth or on the respective shares of the fruits of industry to which capital and management and labour are entitled, our great need now and for years to come is that we should have, not less capital, but more capital."

These observations were made in connection with an increase in the Death Duties, the Chancellor's argument being that if Capital had to be taxed, it is best to tax it at death.

The Chancellor's views are strongly supported by Banking and Stock Exchange circles.

As recently as November, 1920, we see it reported in the Press that the Treasury have been considering a Forced Loan as a substitute for E.P.D., but have discarded the idea on the grounds that the financial disturbance which would be caused would be too great.

A Forced Loan would be a Capital Levy in another form—but it might be less objectionable as savouring less of confiscation.

The main justification for a Capital Levy would appear to lie in its ability to remove the menace of our Floating Debt. We may yet escape a Levy, but

we should be under no delusion about the matter : the alternative to an immediate Capital Levy is a maximum taxing of Income, and a Levy on Capital postponed until it passes on death.

A Levy or Forced Loan of 10 per cent.—or graduated Levy averaging 10 per cent.—on the Capital Wealth of Individuals with a Capital of £1,000 and over, would produce some £1,200 millions, and in a crisis may yet have to be submitted to by the Nation.

The Treasury have doubtless considered the matter in its many aspects, and admittedly a great difficulty would be that of valuation. Without attempting to make such a valuation at the present time the Author suggests that a *Financial Census* of the Capital Wealth of Individuals, *according to their own estimation*, would not be difficult or expensive to take, while its analysed results would provide most useful data for the Treasury in an emergency. No such record exists at present.

The principle of a Capital Levy has been adopted by the Labour Party as one of the planks in their financial platform, and with a franchise which gives the vote to

over 21 million persons, as against approximately 1 million persons, to whom a Capital Levy could possibly apply, can it be doubted that, sooner or later, a Capital Levy will be put into operation, unless meanwhile it has been demonstrated that the alternative of gradual repayment of debt can be successfully carried out without undue pressure on the masses ?

Furthermore, until the Country has settled down, and by common consent has accepted a definite policy as regards the manner of repayment of its War Debt, a feeling of insecurity of Capital will remain, and private enterprise will accordingly be cramped.

THE TAX ON TURNOVER

CHAPTER X

THE TAX ON TURNOVER

PUBLIC discussion is being directed to a proposal for a Tax on Sales or Turnover. It has been suggested that a 1*d.* Tax in the £ would produce a substantial Revenue, and the examples of France, Canada and Mexico are cited by supporters of the proposal.

In the Author's opinion, this Country has a better Taxing System than either of the Countries named, and he sees considerable objections to the adoption of a Tax of this nature. Briefly those objections to such a Tax are that: (1) it would be unduly harassing to the Taxpayer; (2) it would be liable to considerable evasion; (3) its administration would be difficult and costly; (4) it would bear unduly hardly on the poorer classes and certain commercial circles, and (5) finally, it would not produce a sufficient Revenue to compensate for its disadvantages.

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Presumably it would not be proposed to tax food. We have already discussed the futility of such taxes; Drink and Tobacco are already taxed to their limit; and Sales of Land and Property are taxed by the Stamp Duties. What remains? Materials of all kinds, clothing, furniture, motor-cars, etc. What would the turnover in respect of such items amount to in the course of a year? Would it equal our total private Income (£3,700 millions)? If it would, a 1*d.* Tax would produce £15½ millions per annum.

Would such a Revenue justify the annoyance and inequalities entailed?

The Turnover Tax which has been inaugurated in France has a basis rate of 1 per cent. and is gradual up to 10 per cent. on luxuries. Yet on the experience of the first six months it will not yield more than 2,400 millions francs per annum (the estimate was 5,000 millions), and this sum converted into sterling at 60 francs to the £ equals £40 millions per annum.

It is claimed that the Tax has worked smoothly in operation, but it is admitted that the incidence falls ultimately upon the consumer.

ON CURRENCY AND DEFLATION

CHAPTER XI

ON CURRENCY AND DEFLATION

IN Chapter IV we estimated our pre-war taxable wealth at £12,000 millions, and our post-war taxable wealth at £16,000 millions. Yet are we really richer ?

During the War we parted with some £1,000 millions worth of Foreign Securities, and we contracted external Debts for more than another £1,000 millions (representing the balance due by the United Kingdom to overseas people for goods supplied during the War).

Admittedly we also gave large credits to our Allies, but we cannot realize these credits to-day.

The explanation of our nominal increase of wealth is, of course, to be found in the fact that during the War, we abandoned the gold standard of currency, and our

post-war wealth is measured in terms of *Paper* pounds.

In other words there is much water in our National accounts to be squeezed out if we are to return to a sound currency based on a gold standard.

At December 31, 1920, the Treasury had Currency Notes outstanding to the total of £365 millions, as against which it held Gold and Bank of England Notes £48 millions, leaving the Fiduciary Issue at £317 millions.

At present we have an Inconvertible Paper Currency, but are aiming at a return to an effective gold standard by a policy of gradual deflation.

A Country which has departed from a sound currency based on gold has two routes by which it may regain its financial status: (A) to increase taxation to ensure a Treasury surplus, and then gradually to deflate values until paper currency is so scarce that gold can be released in payment of notes; or (B) to undertake a conversion of currency, and at one stroke achieve the same object.

Applying these alternatives to our own Country, under (A) a choice would lie between

(i) a Capital Levy and (ii) a substantial Sinking Fund, while (B) would involve stamping our £1 Treasury notes to the effect that they are worth 25 per cent. less than face value, and only 15s. in gold. (As some of our debts are in sterling and some are in gold, this process is more difficult than it appears, and would badly shake our Credit.)

If we follow the course A (ii) we spread the process of deflation over a longer period, and we give ourselves an opportunity, by hard work, of gradually building up our real wealth, of economizing in our expenditure, and of drawing off the inflated purchasing power given by our present War Debt, until a state of equilibrium and an effective gold standard is once more established.

This is the course, in outline, we shall no doubt, pursue.

The trouble with our own currency is, however, bound up with the troubles of other countries, and while we might quickly right our position in the ordinary way, the degree of deflation which would be necessary for many Continental countries to return to the gold standard, renders such

a course for them almost inconceivable.

The difficulties of the problem are perhaps best brought out by the following Table :—

TABLE IV

SHOWING PERCENTAGE OF CASH RESERVES TO NOTE
CIRCULATIONS OF THE CHIEF POWERS, AS AT
END OF OCTOBER, 1920

	Cash.		Paper Currency.	Percentage.
	Gold.	Gold and Silver.		
	Millions. £	Millions. £	Millions. £	
United Kingdom	123	—	464	26·5
United States . . .	417	—	1,068	39
France	—	230	1,563	14·7
Italy	—	89	810	11
Belgium	—	14	232	6
Japan	—	107	111	96·4
Germany	—	54	3,764	1·4

Paper currencies are converted at the Par Rates of Exchange.

This Table is based upon those given in the Monthly Bulletin (No. 2, Vol. II) of the Supreme Economic Council.

NOTE.—In 1920 the world's gold production (calculated at 85s. per fine ounce) was £70 millions, of which the British Empire contributed £48 millions.

A return to the gold standard being so unlikely for many European countries with which we wish to trade, the question arises whether there is any alternative form of currency possible? It has been

argued by some experts that the currency suited to a modern State is one based upon Index Numbers for wages and commodities, which would obviate at one stroke the fluctuating prices and cost of living, which a gold standard entails to the detriment of the community.

The Author can make no useful prediction on this question, except that it is worthy of greater public attention than it at present receives.

In conclusion the remarks of Professor J. Shield Nicholson in his book on "Inflation" may be quoted:--

"We want to get back, not only to hard money, but to hard thinking. . . . We must realise that the wastes of war can only be made good by hard work and not by soft money."

It is, at least, reassuring to know that we are steadily pursuing the path of retrenchment, as regards our paper money, and have fixed a definite limit to our uncovered note issue.

THE OUTLOOK ABROAD

CHAPTER XII

THE OUTLOOK ABROAD

It may assist us in obtaining a better perspective of our own financial position, if we briefly glance at the present condition of Foreign Countries.

The following Table—compiled from several sources—may be accepted as giving an approximate comparison, though the chaos of the exchanges renders an accurate computation difficult.

Country.	Population (Millions).	Public Debt per head of population.*	
		(a) £	(b) £
United States of America	105	47	63
United Kingdom . .	46	170	178
France	42	250	140
Italy	38	105	51
Belgium	8	150	67
Japan	77	5	4

* Calculated in sterling (a) at par exchange rates, and (b) at current exchange rates.

It will be noticed that the weight of Debt per head of population in the United

Kingdom is over three times that of America ; and France is in an even worse position.

The Total Debt of the Entente Allies to the United States of America is given in round figures at £1,600 millions, France's share of this Debt being about £550 millions, and Britain's share about £850 millions.

A suggestion has been made that America might cancel France's Debt altogether. That she could afford to do so—should she wish—is shown by her remarkable Trade Record for 1919. For that year alone, her Exports exceeded her Imports by nearly £900 millions, and for the year 1920 the figures will be more remarkable still. But America has probably to face bad debts to a considerable amount. Since the Armistice Europe has received approximately £3,000 millions worth of goods from her, and Europe cannot pay. The strain on the world's finances by this huge trade balance is reflected by the high American Exchange. Mr. Chas. M. Schwab, the American Financier, suggests that if the American people are to keep their trade, they must put faith in Europe and assist them with

credit. The Secretary to the Treasury, on the other hand, has warned them against such a scheme, and predicts a deficit for this year of £520 millions.

A reaction in American Export Trade appears to be inevitable, and unemployment is already reported to be considerable.

In Europe the financial position has been going from bad to worse.

Russia has abolished private property, while Austria and Poland have killed their currencies by means of the printing press.

Germany—apart from the claims of the Reparations Commission—is struggling with many adversities, including an exchange rate depreciated to one-twelfth, or less, of its par value, to maintain a bare existence. Germany is on the verge of a further collapse. If this occurs, will it not be disastrous for the rest of Europe?

France has been meeting her Deficits by borrowing and by an ever-increasing paper currency; she is now endeavouring to call a halt to this process of inflation, but is spending money on the strength of indemnities to be received.

Italy—like Germany—has indulged in a levy on Capital, but without re-establishing her finances, though this is probably due to other causes.

Belgium appears to be making the best recovery of the European Countries involved in the War, but she has considerable difficulties to face in freeing her currency from the influence of the currencies of her neighbours. Her population, however, is working hard.

Denmark alone of the European Countries—besides Britain—is stated by our own Chancellor to be keeping her expenditure within her revenue.

Farther afield, we may say that the South American States generally reflect an increased prosperity due to the War, and Mexico shows signs of recovery—thanks to her vast natural resources.

India prospered during the War, and her Budget balances with a surplus.

The Dominions generally are now reflecting the industrial depression in Europe.

Japan has doubled her Foreign Trade during the War. For the last year she has been passing through a financial crisis, but matters now seem to be righting them-

selves. Of all the nations engaged, she has benefited most by the War.

To sum up, therefore, the world's finances are generally in a parlous state, and it will be worth considerable sacrifices, such as cancellations of debt, if the British people can help in restabilising the position.

Both America and Japan are engaged in expensive Naval programmes, which is exciting considerable comment, some of which appears to be exaggerated.

Speaking as recently as November, 1920, on "International Exchanges," Mr. McKenna gave it as his opinion that Government expenditure must be reduced in all Countries, if they hoped to stabilise the Exchanges, and that the alternative lay before us of relying upon "the huge machinery of armaments" or "the machinery of the League of Nations"—which latter would avoid the ruinous expenditure the first alternative offers.

The Nation is now awakening to the fundamental truth contained in Mr. McKenna's pronouncement.

OUR OVERSEAS TRADE

CHAPTER XIII

OUR OVERSEAS TRADE

As this Country's prosperity has been largely built up by its Export Trade, which, to-day more than ever, is the pivot of our National well-being, it is comforting to know that this Trade has shown excellent post-war vitality. Leading authorities such as Lord Inchcape and the Minister of Overseas Trade have expressed cheerful but qualified opinions upon the outlook, and we have progressive commercial organisations such as the new Federation of British Industries, which are extending our trade abroad. Notwithstanding these cheering signs, however, the condition of the world's finances gives cause for grave anxiety. Credit is being "frozen" by the instability of exchanges and Governments.

Before the War, nearly 40 % of our Export

Trade was with the Continent, and in view of the present finances of Europe, it is obvious that our merchants must cultivate other markets if they are to regain our volume of trade, unless the present efforts to set up a new international credit system and to stabilise the exchanges are successful, but the rehabilitation of Europe's purchasing power must, in any event, take many years.

The following Table shows our Import and Export Trade figures :—

MONTHLY AVERAGES (IN MILLIONS).

Year.	Imports per Month.	Exports.			Excess of Imports over Exports.
		Exports.	Re-Exports	Total.	
	Millions. £	Millions. £	Millions. £	Millions. £	Millions. £
1913	64	44	9	53	11
1919	136	66	14	80	56
1920	161	111	19	130	31

The figures are presented in monthly averages, as the Official Returns are published monthly, and a reference to the above Table will tell the reader at once whether the monthly figures—always given

in the Press—are disclosing a healthy state of Trade, or otherwise.

Our principal Exports are Cotton Goods (over £400 millions in 1920, or about 30 per cent. of the total), Woollen Goods (£135 millions), Iron and Steel (£129 millions) and Coal (£100 millions).

Although *the value* of our Trade in 1920 was nearly treble that of 1913, its volume—measured in tons weight—was very appreciably less. Our export of Coal was only some 24 million tons against 73 million tons, and other exports had declined by approximately 4 million tons, or some 27 per cent.

We cannot consider this satisfactory. Matters have been gradually righting themselves since the Armistice, but in 1921 there is certain to be a considerable falling off in our Cotton Exports, and probably a general decline of Exports.

In addition to our “Visible Exports” there are, of course, our “Invisible Exports,” i.e. Profits on Shipping, Insurance, Finance, etc., and in these departments the Country is maintaining its pre-war supremacy, in spite of formidable American competition.

Of our Imports, Food and Drink have, on an average, accounted for 45 per cent. of the total, and the Food, at any rate, we must continue to import. Are we earning it to-day by our Exports ?

Our excess of Imports over Exports on 1920 figures approximates £380 millions. To meet this deficiency we have our "Invisible Exports," but unless these latter are sufficient to adjust the account, we have an adverse Trade Balance, which is very disturbing.

The "Invisible Exports" were estimated at approximately £200 millions per annum before the War, which more than covered the deficiency at the time. Owing to the sale of Foreign Securities we have lost some £50 millions of this income, and it is impossible yet to say what we may have regained in other directions.

Our shipping must have been earning large profits, and *The Times* considers that £500 millions is much below the true figure for our present "Invisible Exports."

It should be remembered that the interest on our External Debt—which probably costs some £100 millions per annum—must be met, though up to the present the

interest on our debt to the American Government has been in abeyance.

The position may be summarised thus :—

	Millions. £
Adverse Visible Trade Balance for 1920 .	380
Add Interest on Foreign Debt	100
	<hr/>
	480
“Invisible” Exports	500
	<hr/>
Net Credit Balance	£20

With such a slender margin we cannot be satisfied. Unless we maintain a favourable balance the Exchanges will move against us. The Exchanges of the Countries from which we import most of our food are the vital ones, and these are America, Canada, India and Argentina.

Our Flour, Grain and Meat Imports in 1920 amounted to over £380 millions, and owing to the adverse exchanges cost us some £40 millions more than they should have done.

During the War, Japan and America encroached considerably upon our trade with India and other markets, and they are our most formidable trade competitors. Their exchanges stand above par; their

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currencies are sound ; and their Public Debts are comparatively light.

In closing this Chapter, the Author cannot refrain from emphasising the vital importance of our Export Trade to our whole financial and economic outlook, and National prosperity. In fact *fully one half* of our population depend upon our Export Trade for their daily food.

THE REPARATIONS QUESTION

CHAPTER XIV

THE REPARATIONS QUESTION

No review of our economic outlook would be complete without reference to the vital but delicate question of enemy Reparations.

It involves problems which affect the Labouring and Commercial classes of the Country, more directly perhaps than the general taxpayer.

The Peace Treaty fixed the preliminary German Indemnity at 20 milliards of gold marks, payable before May 1, 1921, in either gold, ships, or commodities. It also set up the Reparations Commission to prepare the Allies' claims for the balance of the Indemnity which was outlined by the Treaty. Such total claim is to be presented by May, 1921, and to be discharged by Germany within thirty years.

Germany claims that up to the end of 1920 she has made reparations to the value

of 21 milliard gold marks, whereas the Reparations Commission hold that to date she has only paid rather more than half this amount.

Now a milliard gold marks is equal to £50 millions *gold*, so that the preliminary Indemnity was £1,000 millions gold, and measured by a free gold standard is to-day the equivalent of £1,350 millions sterling.

The Allies have since agreed that of the total Indemnity received France shall be entitled to 52 per cent., the British Empire to 22 per cent., and the remaining 26 per cent. will be divided among the other Allies.

It is now generally recognized that the total claim of the Commission will be a sum beyond anything Germany can possibly pay. (A tentative estimate of £8,000 millions—cash—has been mentioned in the Press.)

Two schemes are apparently under consideration. By one—known as the Boulogne programme—it was proposed to fix the amount of the Indemnity for the first five years from 1921 at 15 milliards of gold marks, an average of 3 milliards (£150 millions) per annum, payable partly in cash and partly in kind. It was anticipated

that while Germany might not be able to pay the full average within the first few years, the total of £750 millions was within her capacity to pay in five years. The question of the balance was to be left in abeyance.

An alternative scheme is to commute the claims to a present cash value—85 milliards is suggested = £4,250 millions gold—and allow Germany to repay this sum over a period of years with interest, in the same manner as ordinary External Debts are paid.

Judging by the great difficulties with which our own Country is faced in dealing with its own external Debt of less than £1,200 millions, does there seem the least prospect of Germany being capable of paying any such Indemnity as is indicated?

We must remember that Germany is hampered by many difficulties from which this Country is free.

If the Allies hold Germany to her Treaty obligations in the matter of Reparations, let us at least frankly recognise that Germany will either collapse—like Austria—or will continue to undersell us in the markets of the world.

The importance of the forthcoming Paris Conference on the Reparation question will therefore be appreciated.

There is probably no question of the day which touches our everyday life more closely, but upon which less real interest and attention is bestowed by the average citizen.

ADDENDUM (FEBRUARY 1, 1921).

While this book was in the Press the Paris Agreement between the Allies was completed, settling the Reparation Scheme to be put before Germany. These terms provide for Annuities extending over forty-two years for May 1, 1921, commencing at £100 millions per annum and rising to £300 millions after eleven years, plus a Tax of 12 per cent. on her Exports.

The present Cash Value of the Annuities is calculated to be £3,576 millions, and if we add the present estimated value of the Tax on Exports, we arrive at an approximate total of £4,150 millions, so that the Conference has practically adopted the alterative scheme referred to on page 121.

It remains to be seen whether the fulfilment of these terms by Germany is practicable.

ALTERNATIVES TO BANKRUPTCY



CHAPTER XV

ALTERNATIVES TO BANKRUPTCY

THE Nation has lately received a serious admonition in the Fourth Report of the Committee on Public Accounts, which spoke openly of bankruptcy in the following terms :—

“The imperative necessity of securing economy in every department of Public (as, indeed, of private) life, if national bankruptcy is to be avoided, is not yet sufficiently recognised.”

The Author has no desire to play the rôle of an alarmist, but facts must be faced. At the same time too much reliance should not be placed upon the “economy” remedy for the overthrow of all our financial ills. Economy on the scale which the State will, *in any event*, be forced to adopt will bring much distress in its train. Firstly, it will immediately and greatly increase

unemployment, and secondly, this will react on Trade, and subsequently on every department of our financial system, and thirdly, this in turn will seriously affect our Revenue, and increase the scale of Taxation.

The cost of the "Economy" remedy should, therefore, be duly weighed, and all possible alternatives explored in case this negative policy is insufficient to overcome our difficulties.

Let us suppose for a moment that—with the suddenness of the Declaration of War in 1914—a crisis arose and the Government were to announce that it could not meet its obligations. What would happen? We should, no doubt, have the same rush of generous-minded citizens willing to throw their private wealth and credit into the breach. But would that have the same effect as if the resources of the whole community had been carefully examined in advance, and plans existed (other than the improvisations of the Government of the time being) for immediately mobilising those resources for the common good?

Would not such preparations obviate the

sacrifice of the public-spirited section of the community to the remaining section ? The mere knowledge that such a crisis had been carefully considered and all plans laid for meeting it—should such a misfortune occur—would have at once a steadying influence on our credit system, and though the worst may never happen, we must be prepared for minor panics within the next few years.

If we thoroughly mobilised the Taxable Capacity of the Country, we should be able to meet the demands of existing Taxation more equitably, and we should know where our reserves lay in the event of a crisis such as indicated above.

Is not a financial census or a financial “ Derby Scheme ” possible—and also worth while ?

We have admittedly an admirable taxing system as applied to Income. Probably it has no equal in the systems of any other country in the world, but it is submitted that Income is not the basis for meeting such an emergency call for credit as is indicated. The Author is content to leave the suggestion at that, for what it may be worth, conscious that Public Opinion will

quickly decide whether it be of practical value.

Apart, however, from a Scheme for meeting a sudden crisis, he urges that we should leave no stone unturned to explore our Taxable Capacity with the object of spreading the incidence of inevitable taxes, as equitably as possible, between Taxpayer and Taxpayer.

Such extravagance as we often meet with, to-day, by private individuals, can nearly always be traced to either (1) defects in our Taxing System or (2) evasion of a more or less fraudulent nature of taxes justly due to the State.

Our taxes are already so graded that even the rich cannot afford to be extravagant—except at the expense of the State!

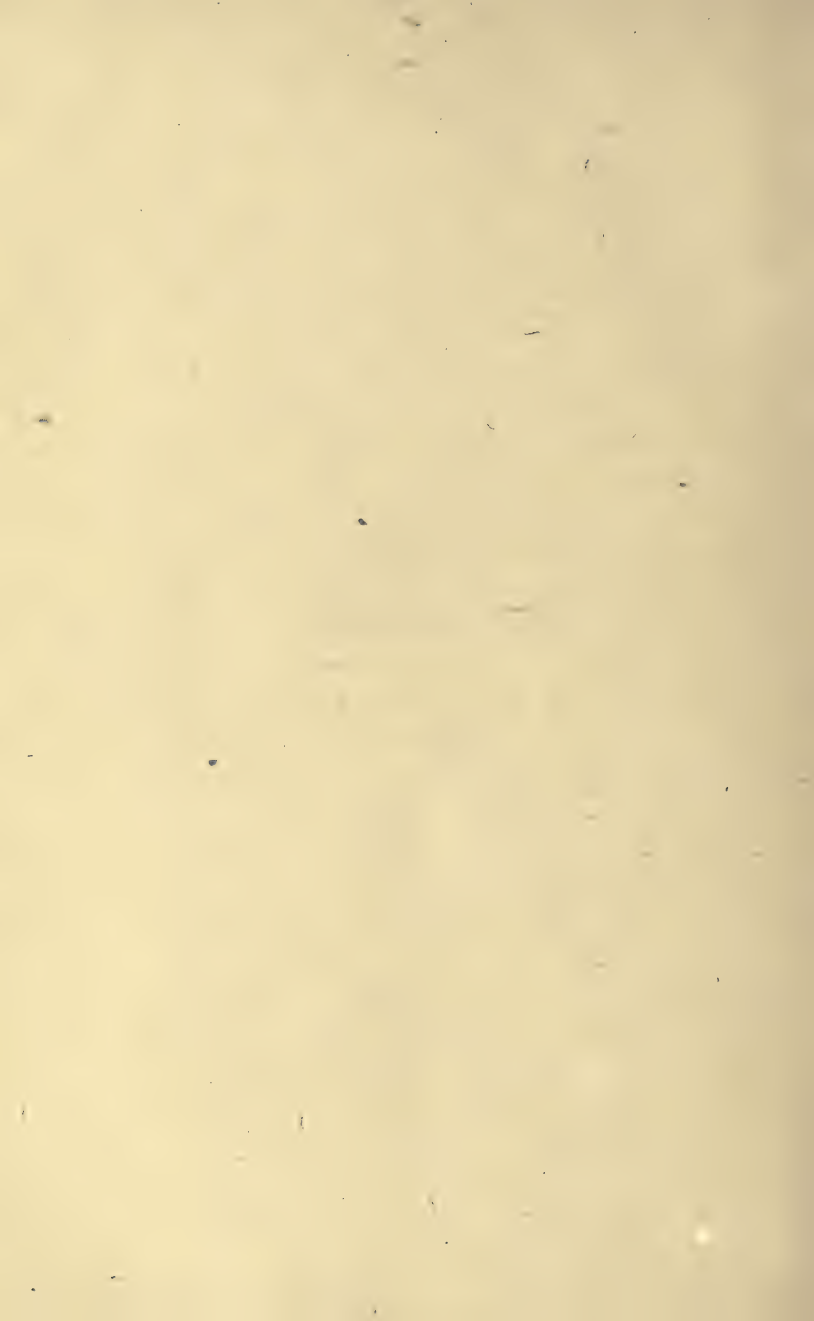
Individual extravagance is less obvious than it was, say, in 1919 and the early part of 1920, but it still exists on every side, and while it exists on the one hand and unemployment and poverty on the other, we ought not to rest satisfied with our Taxing System, however excellent it may be compared with those of other countries.

It is the rich man's insurance to aid the

State to spread the incidence of Taxation fairly. A proposal of insurance which is only made when the roof is about to fall in is not likely to be accepted. The time to insure is now, and it can be undertaken as well—if not better—by private initiative than at official instigation, which must be coercive in nature.

Sir M. de P. Webb's book, *Britain Victorious*, might with advantage be read in connection with this Chapter.

CONCLUSIONS



CHAPTER XVI

CONCLUSIONS

It may perhaps be useful briefly to summarise some of the points and conclusions to be drawn from the facts and problems discussed in the foregoing Chapters. They appear to the Author to be :—

- (1) The Nation must realise the fact that it stands together, or falls together, according to the measure of success with which it grapples with the difficulties now arising in its finances.
- (2) The Taxable Capacity of the Country must be mobilised as thoroughly as though we were again on the verge of War.
- (3) If this be done, we can bridge the difficulty of making Revenue balance Expenditure, plus Sinking Funds, somewhat on the lines of the Budget indicated for 1922–1923.

- (4) We cannot leave our financial burden to posterity, as is sometimes suggested.
- (5) We have great assets in our Foreign Trade, and our financial and commercial experience. We should use them to the full.
- (6) Public Economy can help us to meet our difficulties, but it cannot do everything, and discretion in economy is needed. Drastic economy means drastic re-actions.
- (7) We need not live under fear of National Bankruptcy, unless we are bankrupt in ideas, foresight and moral courage.
- (8) That while we cannot greatly reduce the volume of our Taxation during the next few years, we can do much to modify its worst effects by a sound Taxation Policy, continuously applied, and by good administration.
- (9) Greater sacrifices must be made towards satisfactorily funding our Floating and Maturing Debt; and a substantial Sinking Fund is the only alternative to a Capital Levy

in some form. (A Sinking Fund of 3 per cent. on the amount of Debt outstanding is suggested.)

- (10) Taxation should be direct, rather than indirect, and further efforts made to counter evasion. If necessary further publicity of taxpayer's returns must be resorted to. (The values returned at Death are already published.)
- (11) All Financial Reforms should receive precedence in Parliamentary routine.
- (12) Industry should not be employed as a medium for collecting the Imperial Taxes.
- (13) As private individuals, we must save, not to grow rich, but in order that the State may pay its way.
- (14) Simplicity has a special merit when applied to questions of Taxation. The heavier our Taxation the more straightforward and obvious it should be.
- (15) While we are living on our current slender margin of national prosperity, we must expect violent fluctuations in our financial circumstances.

- (16) We might usefully explore the possibilities of a currency based upon a standard other than gold.
- (17) We cannot sit with folded hands waiting upon Parliament for a lead in everything. The considered judgment of the people should influence Parliament, and not *vice versa*.

And finally we must remember that the Chancellor of the Exchequer for the time being bears a tremendous responsibility, equal to that of our Commanders in time of War, and that he is entitled to support, for, as Mr. Austen Chamberlain said in introducing his Budget in 1919 :—

“ The same people who call upon me for fresh and large expenditure in every special field expect me at the same time to accomplish vast reductions in expenditure. I can work no such marvel, and unless I can have not merely the good-will but the assistance of Parliament, the task which confronts me is one which no man can complete.”

SCALE OF SUGGESTED NEW LEGACY (AND SUCCESSION) DUTY

Present Scale of Duty (approx.).	In respect of a Legacy to	Suggested Duty according to amount of Legacy or Residue.				
		Not exceed- ing £100.	£100—	£1,000—	£10,000—	Exceed- ing £100,000.
Per cent.		Per cent.	Per cent.	Per cent.	Per cent.	Per cent.
1	Husband or Wife, or Children under age	Nil	2	3	4	5
1	Children over age	2	4	6	8	10
	Mother or Father					
	Grandchildren, under age with no father living	3	5	8	10	12½
1	Other Grandchildren.					
5	A Brother, or Sister, or descendants	5	7½	10	12½	15
10	An Uncle or Aunt, or any descendants	7½	10	15	17½	22½
10	Any other person	10	15	20	25	30

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